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CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

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COUNTRY China

SUBJECT Operations of the Peoples Bank/Revenue-producing
Procedures/Foreign Exchange

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1. When the Reds came in they, in effect, took over the banks as well as business firms through a bland but clever trick. Although business slowed up, idle employees had to be retained. Surplus funds were drained out through wages, taxes and bond drives. The Reds would then say to a firm: "You don't have enough capital to conduct your business. You need more capital and you ought to get it from or through your overseas connections and relatives. We want you to get more and fresh capital from abroad." Supervisors were put into firms and banks. A firm's so-called need for fresh capital was not based on any reasonable valuation of the firm's assets, but rather on the official estimate of how much capital the firm might be able to bring in from abroad.
2. Through continued payment of idle workers, taxes and bond subscriptions, all working capital was exhausted and when stockholders objected they were told to go to the banks and borrow money to carry on. This procedure was repeated over and over. The company would go to its bank to borrow money but found that its own bank had likewise, and by the same measures, been depleted of its capital and deposits. The bank would have to go to the Peoples Bank to borrow the money for its client. This system brought all private banks and firms under the control of the Peoples Bank. When the loans could not be repaid, the borrowing firm or bank was liquidated, or reorganized with official capital and the private equity was watered down to nothing. Thus private enterprise passed to the state but still under the guise of a neat legal trick.

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3. The Reds tried to set up accounting, cost accounting and inventory methods, some of which failed to work. [redacted] they got into a lot of trouble over railway accounting. They had translations made from British and American books on the subject but the translations did not work too well. These translations got the inventories of the Shanghai and Nanking and other railways into hopeless confusion for months. They got to a point where they did not know what parts they had, what they cost or where they belonged or what the parts really were.

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4. The only publications [redacted] about a budget were some figures in the Hong Kong Ta Kung Pao about two years ago. These showed a number of items about military expenses, but [redacted] they were too small. There were larger items under miscellaneous which were probably for military expenses.

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5. Flood control work is to a great extent by slaves, or so-called prison labor.

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6. [redacted]

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7. Compulsory bond sales are a regular practice. All kinds of coercive measures are taken to sell bonds. No permit or license of any kind is ever issued unless the grantee comes across with a bond subscription. Exit or travel permits call for bond subscriptions. Likewise, permits to open or continue in business. The amount of the bond subscription is whatever the official estimates the applicant for a permit or license should pay rather than what he can pay. [redacted] there have been five bond issues, and practically no one can escape subscribing.

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8. [redacted]

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[redacted] most party members are paid only what might be called their cost of living, or subsistence, i.e. KUNG CHI CHIH (~~工~~ ~~食~~ ~~住~~) and this probably does not allow for much of surplus for bond subscriptions. For propaganda purposes, party members do have to subscribe something even if chiselled off a scanty subsistence allowance or by overtime work. This cannot be a very substantial source of revenue. Taxation is undoubtedly a larger source of revenue. The coercive bond sales plus taxation is about the only way I know of that the Red Government gets its financing and these two methods keep both the people and banks strapped. Incidentally, a permit to go to Macau or Hong Kong requires a heavy bond subscription.

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9. The Government prints its own bank notes and [redacted] this is done by the "People's Bank". They are now printing big denomination notes up to Yuan 100,000 [redacted]

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10. The People's Bank, controls or has consolidated or liquidated all private banks. It is not a Central Bank in the usual meaning of a Central Bank. The People's Bank went into direct competition with private banks and forces business with and deposits from individuals and firms, and has established branches all over the country for direct business. The People's Bank encourages everybody to make deposits, even wage earners, and it thus keeps a close control and check on the money situation. If anyone has a spare few dollars, he is pressured to buy bonds.

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11. [redacted]

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[redacted] the Postal Savings Bank has been merged into the People's Bank.

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- 25X1 12. Shortly after the Communists moved into an area they ordered all US dollars and credits turned in to the People's Bank, or other banks for the People's Bank. At the same time they pressured all likely candidates to get remittances from overseas. Frequently, the payee did not get the proceeds of the remittance. He was required to buy bonds or make donations to various drives. In the early days when US dollars and gold were called in the owner was credited in a bank account with parity units at a rate fixed by the Government. [redacted] there were many cases of confiscation of US dollars and gold on the ground that the owner was hiding more or was a counter-revolutionary. [redacted] silver also was called in. Through terroristic methods most of the gold and silver was probably taken from the people. When the National Government nationalized silver the Central Bank estimated that large quantities of silver were hoarded and the Reds knew this. It is a safe estimate to assume that the Reds have found and taken over most of the gold and silver that was hoarded and hidden.
- 25X1 13. [redacted] The Reds tried for about six months to limit the value of their money to commodity prices. This was not too successful and they went back to a fiat standard.
- 25X1 14. [redacted] no information about transactions with USSR bloc except newspaper reports from time to time. The original US \$300 million credit agreement was published in the press as being in and for US \$300 million. The original agreement was probably in rubles and the reference to dollars may have been merely a translation of the equivalent in rubles. There is undoubtedly a lot of juggling between the Reds in US dollars, sterling and Hong Kong dollars, but I have no details. No information about exchange pooling arrangements. USSR seems to run the show, however. Take wolfram. This is all exported to the USSR and then some of it is re-exported. Russians in China all seem to be paid in US dollars. Some of the advisers get salaries up to US \$1,000 per month [redacted]
- 25X1 15. The Reds got practically nothing from the National Government on the mainland in gold or foreign exchange as we brought out everything we had. The Reds did pick up some nominal amounts from drafts or checks in transit. A number of such were negotiated through Hong Kong banks. [redacted]
- 25X1 16. There is a black market and some flight of capital. Any one who can get money out still does so in spite of the great risk. [redacted]
- 25X1 17. There are Russian advisers right down to bookkeepers. There is some smuggling of gold and exchange into and out of China through Hong Kong and Macau. [redacted]
- 25X1 18. Most of the economic penetration of the Russians seems to be through joint participation, joint companies, and technical advisers. One of the purposes of these Russian contrivances is to see that the USSR gets what she wants in the way of raw materials. Also to get grains and foodstuffs which the Chinese themselves actually and badly need. The People's Bank is the final controlling agency over credit facilities for exports to the USSR and satellites. [redacted]

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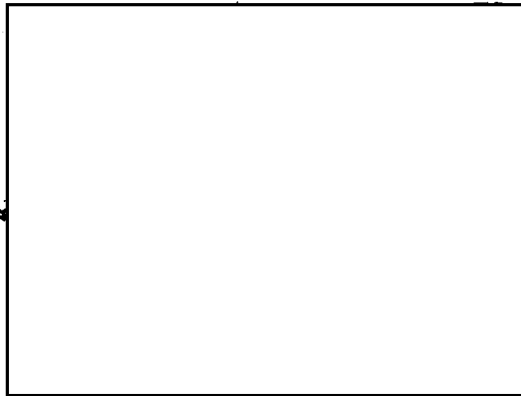
Hong Kong is a sort of clearing house for overseas remittances and [redacted]
[redacted] all of the banks there [redacted] are involved in these re-
mittances. However, the Bank of China is probably the chief agency for handling
credit and export facilities for trade with the USSR and satellites.

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